MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3 2021/2022

BEC1034 – MICROECONOMICS

(All sections / Groups)

5 OCTOBER 2022
9.00 am to 11.00 am
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. Excluding the cover page, this final examination paper consists of **THREE** pages of **FOUR** structured questions. Marks are shown for each question.
2. **Answer ALL questions** in the answer booklet provided.

Answer ALL questions.

Question One (25 marks)

Table 1 shows a portion of Ali's household demand schedule for Product X at various levels of monthly household income. Refer to Table 1 and answer the following questions.

Table 1: Demand Schedule and Income

Price	Quantity Demanded (Income = RM5,000)	Quantity Demanded (Income = RM7,500)	Quantity Demanded (Income = RM10,000)
RM24	2	3	4
RM20	4	6	8
RM16	6	9	13
RM12	8	12	16
RM8	10	15	20
RM4	12	18	24

(a) Use the midpoint method and find the price elasticity of demand for Product X between RM16 and RM20, when Ali's household income is RM7,500. (4 marks)

(b) Use the midpoint method and find the price elasticity of demand for Product X between RM8 and RM12, when Ali's household income is RM5,000. (4 marks)

(c) If Firm X is one of the sellers of Product X and its targeted customers demand are similar to Ali's household. Based on your calculation in (b), discuss how a discount price promotion for Product X might affect the total revenue of Firm X. (4 marks)

(d) Use the midpoint method and find Ali's household income elasticity of demand for Product X when his household income rises from RM7,500 to RM10,000 per month, at a price of RM16. (4 marks)

(e) Based on your calculation in (d), describe Product X. (4 marks)

(f) Based on Utility Maximisation Rule, explain how Ali's household allocate their income to consume Product X. (3 marks)

(g) State Ali's household opportunity cost of consuming Product X. (2 marks)

Question Two(25 marks)

Assume Musa owns a Musang King durian orchard. During durian season, on average, Musa's equilibrium of Musang King durian sold is 20kg, earing RM1,000 revenue per day.

(a) Illustrate graphically the Musang King durian market for Musa's orchard. (4 marks)

(b) Explain, with examples, three determinants of supply of Musang King durian. (9 marks)

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(c) Suppose the Malaysian government imposed a price ceiling in Musang King durian market. Depict in your graph sketched in (a) the effect a RM300 price ceiling would have on the market for Musang King durian. (2 marks)

(d) Explain how the market will clear due to the price ceiling imposed in (c). (6 marks)

(e) Suppose that Musa began to promote his Musang King durian on tik-tok and gained about 1,000 views and likes per day. Explain what will happen to the Musang King durian market for Musa's orchard? (4 marks)

Question Three (25 marks)

Read the news extract below and answer the following questions.

Oil prices have soared. Why won't Opec bring them down?

BBC 4 August 2022

The world's major oil exporters have agreed to raise their production slightly in September, to help ease soaring prices. Members of oil producers' group Opec+ - which includes Russia - will jointly increase output by 100,000 barrels a day. This follows an increase of 600,000 barrels a day in July and August. Oil importing countries had wanted a bigger increase than that, to bring down oil prices.

Opec+ is a group of 23 oil-exporting countries which meets every month in Vienna to decide how much crude oil to sell on the world market. At the core of this group are the 13 members of Opec (the Organisation of Oil Exporting Countries), which are mainly Middle Eastern and African countries. Opec was formed in 1960 as a cartel, with the aim of fixing the worldwide supply of oil and its price. Today, Opec nations produce around 30% of the world's crude oil, about 28 million barrels a day. Saudi Arabia is the biggest single oil producer within Opec, producing more than 10 million barrels a day.

When Russia invaded Ukraine, the price of crude soared to well over $100 a barrel, because of panic on the markets. This has caused significant rises in the price of petrol at the pumps. When Opec+ cut supplies by 10 million barrels a day in May 2020, they cut too deep," says David Fyfe, chief economist at Argus Media.

Now Opec+ are increasing supply at a slow rate that does not take into account the effects of the Russia-Ukraine crisis. There is a fear among oil buyers that the EU will follow the US and impose an embargo on oil imports from Russia, says Mr Fyfe. Europe currently imports over two and a half million barrels of crude a day from Russia. "The threat of an embargo on Russian oil has spooked the markets," he says, "because it could lead to an acute supply squeeze." Other Opec+ nations are struggling to increase output. Producers like Nigeria and Angola have been undershooting their production quotas by a collective million barrels a day over the past year. Investment fell off during the pandemic - and oil installations, in some cases, haven't been well maintained. Now, they're discovering they can't actually deliver production increases in full.

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Opec+ also has to respect Russia's wishes, since it is one of the two biggest partners in the alliance. The Russians are happy with prices at this level," says Carole Nakhle, CEO of Crystol Energy. "They have nothing to gain in seeing them go lower. Opec wants to keep good relations with Russia, so they are most likely to continue with the agreement they all made last year. *That means increasing crude supplies very gradually from now until September.*"

Source: https://www.bbc.com/news/business-61188579

Based on the news extracted from BBC, answer the following questions.

(a) Discuss the implication of "*That means increasing crude supplies very gradually from now until September*". (6 marks)

(b) Depict the **four** basic characteristics of Organization of Petroleum Exporting Countries (OPEC). (8 marks)

(c) Illustrate graphically a profit maximising OPEC. (5 marks)

(d) Explian why OPEC+ meets periodically to decide in production of oil. (6 marks)

Question Four (25 marks)

Table 2 shows the number of calculators assembled per week by various numbers of workers. The price per calculator in a perfectly competitive product market is RM8.

Table 2: Calculators assembled per week

Quantity of Labour	Number of calculators per week
0	0
1	200
2	330
3	480
4	580
5	620

(a) Compute the marginal product of labour (MPL) and the value of the marginal product of labour (VMPL). MPL is the additional output produced by an additional unit of labour. VMPL is the price of output multiplied by the MPL. (6 marks)

(b) Predict how many workers would the firm employ if the weekly wage rate is RM800. (2 marks)

(c) Sketch the labour demand curve for this firm. (4 marks)

(d) Interpret what will happen to the demand for labour when the price of the calculators sold rises to RM10 each. (4 marks)

(e) Interpret why a profit-maximizing competitive firm would continue to hire more workers as long as its marginal product is rising. (9 marks)

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